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Comments on "Aggregate Demand" by J.D. Mooney and C.E. Metcalf

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The conclusion by Mooney and Metcalf that a 3.5% unemployment
rate would be associated with only a 5.4% or so reduction in the number
living in poverty is, on the face of it, discouraging to an advocate of.
an aggregate demand approach to the elimination of poverty. A 3.5% unemploy-
ment rate is a bit better than the "interim target" of the Council of
Economic Advisors. If this relatively low unemployment rate does not
do much of the job, it can be argued that, while increased aggregate demand
may be needed to ratify the effects of other more direct programs, it
cannot be the foundation of the war on poverty. I disagree with this
proposition, and I wish to suggest that a reading of some other data
that Orshansky might lead to a more optimistic view as to what aggregate
demand can do.[1]

The methodology of the Mooney and Metcalf paper depends upon an
unchanged structure of unemployment as demand is increased. The evidence
such as it is for an unchanging structure is demographic, not economic.
The attached Table I indicates some of the economic aspects of a reduction
in unemployment generate a change in the structure of unemployment.

Between 1964 I and 1965 I the unemployment rate fell from 6.2% to
5.4%--the fall was 13% of the initial rate. However the specific unemploy-

1. Mollie Orshansky, "Counting the Poor: Another Look at the Poverty
Profile", Social Security Bulletin, January 1965, Table 8, p. 19,20.

Changes in Unemployment Rates and Employment
by Occupation, 1964 I to 1965 I
and
% of Families in Poverty by Occupation of Head

1963

	1	2	3	4	5	6
Occupation	Unemployment Rate (per cent)		Change		% in Poverty, 1963	unrelated
	1964I	1965I	% points	% of rate	Families	ind.
Total	6.2	5.4	-.8	-13	15.1	43.9
Nonfarm Laborers	15.5	12.7	-2.8	-18	29.9	43.5
Farm Laborers and Foremen	10.5	8.2	-23	-22	29.3*	42.9*
Operatives	8.4	6.6	-1.8	-21	11.3	14.4
Service Workers other than Households	7.1	6.6	.5	-7	15.4	30.9
Craftsmen and Foremen	6.1	5.5	-.6	-10	5.5	5.8
Private Household Workers	5.2	4.6	-.6	-12	64.0	70.2
Clerical Workers	4.2	3.7	-.5	-12	4.3	11.6
Sales Workers	3.9	4.1	+.2	*5	4.3	11.6
Managers Officials and Proprietors	1.8	1.4	-.4	-22	5.4	18.9
Professional and Technical	1.7	1.6	-.1	6	2.8	28.5
Farmers and Farm Managers	.5	.7	+.2	+40	29.3*	42.9*

Source: Columns 1,2,3, and 4: Arthur M. Okum, The Role of Aggregate Demand in Alleviating Unemployment, Presented at the Princeton University Conference on "The Unemployment Problem in the United States: Trends and Proposals", Princeton, New Jersey, May 13, 1965, Table I, p.17.

Columns 5 and 6, Mollie Orshansky, "Counting the Poor: Another Look at the Poverty Profile", Social Security Bulletin, January, 1965, Table 8, p. 19, 20.

* Separate data not available on 'Farm Laborers, Foremen, and Managers'.

ment rate of Non-farm Laborers and Operatives fell 18% and 21% of their initial rates. At the same time the specific unemployment rate for Craftsmen and Foremen fell by 10% and for Professional and Technical Workers it fell by 6%, of their respective initial rate. With some anamolies, the relative decline in unemployment was greater for occupations with high initial unemployment rates than for occupations with high initial unemployment rates than for occupations with low initial unemployment rates. The type of problem that Killingsworth has written about did show up in this change.

With the exception of Private Household Workers and Farmers and Farm Managers (for which the data is not sufficiently precise in the Orshansky article) the percentage of both families and unrelated individuals in poverty tends to conform to the occupational unemployment rate. A decrease in overall unemployment rates will therefore tend to have a particular strong impact upon those occupations in which poor people are concentrated. Such relatively rapid increases in employment should tend to lead to an upgrading of workers, an increase in overtime and a relatively large increase in straight time wages for these occupations that tend to be associated with poverty.

That is, to the improvement in the poverty status of families and unrelated individuals due to the rise in full time employment, reduction in unemployment and the rise in multi-earner families as studied by Mooney and Metcalf, it is necessary to add the rise in income due to relative wage increases of both those already fully employed and the newly employed.

Some 2,029,000 families with heads a 'year round full time worker' earned poverty incomes in 1963. Some 20% of these were Farmers and Farm Managers and another 11% were Managers, Officials, and Proprietors. We can assume that these families would not directly benefit from a rise in wages and other job income. The most direct effect of higher wages due to tighter labor markets would be upon Craftsmen and Foremen, Operatives, Service Workers outside Private Household Workers and Laborers. These classes of workers make up 55% of the 2,029,000 families in ppverty with head a full time worker. A run of years with tight unemployment should see most of these 1,100,000 families benefit from increases in their heads wages that are greater than the increase in average wages.

There are some 7 million families in poverty in 1963 of which some 2 million worked full time in 1963. About 40% of these full time workers were in occupations (Non-Farm Laborers and Operatives) whose specific unemployment rate fell rapidly during 1964-5. That is the occupations in which employment opportunities improved very strongly during the expansion were important generators of poverty. This should not result in poverty among the fully employed increasing, rather the income of those employed and now earning poverty level incomes should rise.

A broadly based tight full employment should tend to decrease the gradient in industrial and service wages. In addition it should expedite the movement of labor out of the agricultural and small shop occupations, which also are poverty related occupations.

Perhaps the most important proposition of the aggregate demand approach to ending poverty is that a tight full employment world is not a simple extrapolation of a slack economy. The system undergoes a "change of state" as a result of an extended period of tight labor markets, and one aspect of the change in state is a relative rapid rise of wages and incomes in the lower paid occupations. (I made this argument in my paper, "Poverty and Income Maintenance for All" which was forwarded earlier).

Of course the war on poverty cannot and should not wait for the change in state brought about by an extended period of tight full employment. The most hopeful way of generating the rise in wages and income now is by a greatly expanded job corps. The job programs should ideally be tap programs, and should be extended both to full time jobs for young men and women to age 25 and part time job for secondary earners such as wives with children and teenagers in school. The job corps should make jobs available to all 16 to 18 year olds in school jobs that yields just about the incremental cost of supporting a high school student. The economic basis for dropping out should be diminished in this way.

The aim of the urban job corps should be to "artificially" generate a large number of two and three earner families--thus making the path explored by Mooney and Metcalf a much broader path. After all if the "income deficiency" of the poor adds up to some 12 billions, the direct effect of pumping $1 billion dollars into the coffers of the poor

adds up to 1/8 of the problem; the secondary effects would be at least as large as any other rise of $1 billion in expenditures.

However aggregate demand is not all that homogeneous. A billion dollars fed into the system by way of an urban job corps will yield different and more favorable secondary effects for the war on poverty than a billion dollars fed into the system by a "moon shot" program.